

## Message Text

UNCLASSIFIED

PAGE 01 ROME 11012 01 OF 03 062312Z

ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-07

EA-09 FRB-01 INR-07 IO-14 NEA-10 NSAE-00 USIA-15

OPIC-06 SP-02 LAB-04 EPG-02 SIL-01 AGRE-00 OMB-01

XMB-04 HUD-02 PRS-01 PA-02 L-03 OES-07 INT-05

ERDA-07 DODE-00 FPC-01 H-02 NSC-05 PM-04 SS-15

STR-04 ACDA-10 FEA-01 DOTE-00 FAA-00 /171 W

-----076908 070016Z /72

R 061533Z JUL 77

FM AMEMBASSY ROME

TO SECSTATE WASHDC 5705

TREASURY DEPT WASHDC

INFO AMEMBASSY BRUSSELS

AMCONSUL FLORENCE

AMCONSUL GENOA

AMCONSUL MILAN

AMCONSUL NAPLES

AMCONSUL PALERMO

AMEMBASSY PARIS

AMCONSUL TRIESTE

AMCONSUL TURIN

UNCLAS SECTION 1 OF 3 ROME 11012

PASS FRB; USOECD; USEEC

E.O. 11652: N/A

TAGS: EFIN, IT

SUBJ: ECONOMIC CONTENT OF PROGRAM ACCORD

REF : A. ROME 10472

B. ROME 10748

C. ROME 10930

1. /SUMMARY/. JUNE 30 ISSUE OF PCI DAILY /L'UNITA'/

PUBLISHED FULL TEXT OF "PROGRAM ACCORD" AGREED TO BY DC AND

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 ROME 11012 01 OF 03 062312Z

ABSTENTION PARTIES. FOLLOWING REPORT CORRECTS AND SUPPLEMENTS

REFTEL A CONCERNING ECONOMIC CONTENT OF THE PROGRAM ACCORD.

IN FACT, NEARLY ALL ECONOMIC MEASURES DESCRIBED IN REFTEL A

ARE MAINTAINED IN FINAL VERSION OF AGREEMENT AND REMAIN VALID

UNLESS OTHERWISE NOTED IN FOLLOWING TEXT. PARAGRAPHS BELOW

ARE KEYED TO SUBTITLES USED IN REFTEL A. /END SUMMARY/.

2. /INTRODUCTION/. (PARA 2 OF REFTEL) TEXT OF ACCORD MAKES SPECIFIC REFERENCE TO AIM OF MAKING NEW PROGRAM AGREEMENT COMPATIBLE WITH IMF LETTER OF INTENT OBJECTIVES OF REDUCING THE BUDGET DEFICIT, RE-ALLOCATING RESOURCES FROM CONSUMPTION TO INVESTMENT, AND REDUCING GROWTH OF UNIT LABOR COSTS.

3. /PUBLIC FINANCE/ (PARAS 4, 5 AND 6 OF REFTEL) RE /LOCAL GOVERNMENT FINANCE/, FINAL VERSION OF DOCUMENT MAKES CLEAR THAT PROPOSED NEW TAX ON RESIDENTIAL HOUSING HAS NOT, IN FACT, BEEN AGREED TO BY ALL PARTIES (E.G., PSDI AND PLI) AND THAT NEW TAX MIGHT BE ADDITIONAL TO, RATHER THAN SUBSTITUTE FOR, INVIM AND ILOR TAXES ON REAL ESTATE. AGREEMENT DOES CALL FOR CEILING ON LOCAL GOVERNMENTS' EXPENDITURES FOR 1977 AND 1978 SIMILAR TO IMF CEILING ON CENTRAL GOVERNMENT EXPENDITURES. LOCAL GOVERNMENT CEILING WOULD LIMIT SPENDING INCREASES TO NO MORE THAN RATE OF INFLATION (I.E., NO REAL INCREASE). ALSO, THERE IS REFERENCE TO TREASURY CONSOLIDATION OF UP TO 50 PERCENT OF TOTAL LOCAL GOVERNMENT DEBT (PART FROM RECENT CONSOLIDATION OF SHORT-TERM LOCAL GOVERNMENT DEBT TO COMMERCIAL BANKS), PROVIDED THAT AMORTIZATION PAYMENTS HAVE PRIORITY OVER OTHER PAYMENTS IN LOCAL GOVERNMENT BUDGETS. ON /PERSONNEL COSTS/, MOBILITY OF LABOR WITHIN PUBLIC ADMINISTRATION MIGHT BE FACILITATED THROUGH USE OF UNIFIED EMPLOYMENT ROLLS. WITH REGARD TO/TAX REVENUES/, AGREEMENT CALLS FOR ADOPTION OF MULTI-YEAR PLAN (3-5 YEARS), PERMITTING TAX RETURNS OF ALL TAXPAYERS IN CERTAIN ECONOMIC CATEGORIES TO BE AUDITED.

UNCLASSIFIED

UNCLASSIFIED

PAGE 03 ROME 11012 01 OF 03 062312Z

4. /ACTIVE POLICY FOR BUSINESS SECTOR/. (PARA 7 OF REFTEL) FINAL TEXT OF AGREEMENT CALLS FOR APPROVAL OF INDUSTRIAL RECONVERSION PLAN NOW UNDER CONSIDERATION BY PARLIAMENT (SINCE SPRING OF LAST YEAR) BEFORE SUMMER RECESS. TEXT OF AGREEMENT STATES THAT ITALY SHOULD AVOID ANY ENLARGEMENT OF DIRECT STATE OWNERSHIP IN PRODUCTIVE SECTOR. TWIN OBJECTIVES OF ADEQUATE CONTROL OVER USE OF PUBLIC MONIES AND MANAGERIAL AUTONOMY IN STATE-OWNED INDUSTRY MUST BE RECONCILED. BUILDING ON CONCLUSIONS OF CHIARELLI COMMITTEE STUDY (SPECIAL STUDY OF THE STATE HOLDING COMPANIES COMMISSIONED BY THE PARLIAMENT), STATE HOLDINGS SHOULD BE REORGANIZED SO AS TO PREVENT THEIR BECOMING THE DUMPING GROUND FOR SICK COMPANIES, TO PERMIT BETTER INVESTMENT PLANNING, AND TO "PROFESSIONALIZE" METHOD OF SELECTION OF TOP MANAGERS. FINAL VERSION OF AGREEMENT DOES NOT MENTION REGROUPING OF ALL STATE-OWNED MINORITY HOLDINGS IN INDUSTRY (PER PARA 7 OF REFTEL) BUT DOES SUGGEST CREATION OF FINANCIAL HOLDING COMPANY WITHIN STATE PETROLEUM COMPANY (ENI) WHICH WOULD CONTROL STATE-OWNED HOLDINGS IN MONTENDISON.

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 ROME 11012 02 OF 03 062351Z  
ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-07  
EA-09 FRB-01 INR-07 IO-14 NEA-10 NSAE-00 USIA-15  
OPIC-06 SP-02 LAB-04 EPG-02 SIL-01 AGRE-00 OMB-01  
XMB-04 HUD-02 PRS-01 PA-02 L-03 OES-07 INT-05  
ERDA-07 DODE-00 FPC-01 H-02 NSC-05 PM-04 SS-15  
STR-04 ACDA-10 FEA-01 DOTE-00 FAA-00 /171 W  
-----077535 070017Z /72

R 061533Z JUL 77  
FM AMEMBASSY ROME  
TO SECSTATE WASHDC 5706  
TREASURY DEPT WASHDC  
INFO AMEMBASSY BRUSSELS  
AMCONSUL FLORENCE  
AMCONSUL GENOA  
AMCONSUL MILAN  
AMCONSUL NAPLES  
AMCONSUL PALERMO  
AMEMBASSY PARIS  
AMCONSUL TRIESTE  
AMCONSUL TURIN

UNCLAS SECTION 2 OF 3 ROME 11012

5. /PRIORITY INVESTMENT SECTORS/. /L'UNITA'/ ARTICLE PRESENTS  
CONSIDERABLY MORE DETAIL ON INVESTMENT CONTENT OF AGREEMENT  
THAN DID EARLIER /24 ORE/ ARTICLE. FOR /MEZZOGIORNO/ (SOUTHERN  
ITALY), ACCORD CALLS FOR AGREEMENT BY END-JULY ON SIMPLIFICATION  
OF PROCEDURES FOR SPENDING OF INVESTMENT FUNDS IN MEZZOGIORNO.  
PREVIOUS SUPPORT FOR ECONOMIC "POLES OF ATTRACTION" IN MEZZOGIORNO  
IS ABANDONED; PRIORITIES OUTLINED IN DRAFT INDUSTRIAL RECON-  
VERSION LAW ARE TO BE RESPECTED, AND PRIVATE SECTOR IS URGED  
TO CONCENTRATE ITS RECONVERSION EFFORTS IN MEZZOGIORNO. FOR  
AGRICULTURE IN SOUTH, TEXT CALLS FOR REVIEW OF EC SYSTEM OF  
AGRICULTURAL PREFERENCES AND OTHER POLICIES WHICH MAY DAMAGE  
ITALIAN AGRICULTURE, PARTICULARLY IN LIGHT OF PROPOSED EXPANSION  
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 ROME 11012 02 OF 03 062351Z

OF EC MEMBERSHIP. IN CREDIT AND FISCAL AREAS, DOCUMENT CALLS

FOR REFORM OF AGRICULTURAL CREDIT SYSTEM, BETTER COORDINATION OF SUBSIDIZED CREDIT PROGRAMS, AND PREFERENCE FOR PUBLIC EXPENDITURES IN THE SOUTH AS METHOD OF REDISTRIBUTION OF INCOMES. REFERENCE IS MADE TO REQUIREMENT THAT INSURANCE COMPANIES AND SOCIAL INSURANCE INSTITUTES INVEST PART OF THEIR REQUIRED RESERVES IN LOW-INCOME HOUSING IN MEZZOGIORNO.

6. FOR /HOUSING/, FINAL VERSION OF TEXT INDICATE THAT EXEMPTION FROM PROPOSED NEW FAIR RENT LAW AND EXEMPTION FROM PROPOSED NEW TAX ON RESIDENTIAL HOUSING MIGHT BE ALTERNATIVE RATHER THAN ADDITIVE INCENTIVES FOR PRIVATE RESIDENTIAL HOUSING BEGUN AFTER JANUARY 1, 1978. IN /AGRICULTURE/, AIM IS EXPRESSED OF REDUCING ITALY'S FOOD TRADE DEFICIT SO THAT ITALY WOULD COVER 90 PERCENT OF ITS FOOD CONSUMPTION THROUGH DOMESTIC PRODUCTION. GENERAL POLICY GOALS ARE ALSO CITED REGARDING: (1) PROMPT TRANSFER OF FUNDS TO REGIONS, (2) APPROVAL OF DRAFT LAWS IN SUPPORT OF LIVESTOCK RAISING, FRUIT AND VEGETABLES PRODUCTION, IRRIGATION AND FORESTATION, (3) RECOVERY OF ABANDONED LAND, (4) AGRICULTURAL COOPERATIVES, (5) AGRICULTURAL CREDIT, (6) UNIFIED ACTION BY STATE HOLDING COMPANIES IN FIELD OF AGRO-INDUSTRY, (7) MODIFICATION OF EC AGRICULTURAL POLICY TO HELP POORER AREAS OF COMMUNITY, AND (8) TENANT FARMING RELATIONSHIPS. FOR /ENERGY/, THERE IS STRESS ON CONSERVATION, ESPECIALLY OF FUEL FOR HEATING PURPOSES OF GASOLINE THROUGH BETTER REGULATION OF URBAN TRAFFIC, AND OF INDUSTRIAL ENERGY THROUGH INCENTIVES TO INDUSTRY FOR INVESTMENT IN LATEST ENERGY TECHNOLOGY. AGREEMENT ALSO CALLS FOR MAXIMUM USE OF DOMESTIC ENERGY RESOURCES, IMMEDIATE CONSTRUCTION OF FOUR NUCLEAR PLANTS, PROMPT AGREEMENT ON LOCATION OF FOUR ADDITIONAL NUCLEAR PLANTS, AND GOAL OF TECHNOLOGICAL AUTONOMY. IN /TRANSPORT/ SECTOR, REFERENCE IS MADE TO VARIOUS INVESTMENT PLANS FOR RAIL ROADS, PORTS, AND AIRPORTS, AS WELL AS TO MEASURES TO BE TAKEN FOR URBAN TRANSPORT, SUPER HIGHWAYS

UNCLASSIFIED

UNCLASSIFIED

PAGE 03 ROME 11012 02 OF 03 062351Z

AND TRUCKING. A NATIONAL CONFERENCE ON TRANSPORTATION IS TO BE HELD BEFORE THE END OF 1977.

7. /FACTOR COSTS AND PRODUCTIVITY/. (PARA 9 OF REFTEL) AGREEMENT STRESSES INCREASE IN PRODUCTION AND IN /PRODUCTIVITY/ AS BEST WAY TO LIMIT RISE IN UNIT LABOR COSTS. MOBILITY OF LABOR WOULD BE ENCOURAGED BY THREE-POINT PROGRAM OF: (A) INCOME SUPPORT DURING PERIOD OF INACTIVITY, (B) TRAINING PROGRAMS AND (C) BETTER INFORMATION ON AVAILABILITY OF JOB OPENINGS. ON QUESTION OF /COST OF LABOR/, "FISCALIZATION" OF SOCIAL INSURANCE COSTS IN FINAL VERSION OF AGREEMENT IS DESCRIBED AS "ONE WAY" OF LIMITING RISE OF LABOR COSTS (RATHER THAN BEING A MUTUALLY AGREED PROPOSAL) AND ANY SUCH FISCALIZATION WOULD BE IN "LIMITED" AMOUNTS ONLY. DOCUMENT ALSO CITES INDIVIDUAL POSITIONS TAKEN BY VARIOUS POLITICAL PARTIES ON LABOR COST QUESTION WITH DC SUPPORTING MEASURES GOING BEYOND FISCALIZATION IN 1978, IF

RISE IN LABOR COSTS REMAINS INCOMPATIBLE WITH REDUCTION OF INFLATION. PRI GOES ON THE RECORD AS OPPOSED TO FISCALIZATION. PSDI CALLS FOR MODIFICATION OF "BASKET" OF GOODS AND SERVICES USED IN CALCULATING (SCALA MOBILE) ESCALATOR CLAUSE WAGE ADJUSTMENTS. PCI, PSI, AND PSDI STRESS THAT INFLATION IS RESULT OF VARIETY OF CAUSES AND NOT JUST OF LABOR COST INCREASES. ALL PARTIES CALL FOR COOPERATIVE EFFORT WITH BUSINESS AND LABOR FOR IMMEDIATE AND PROFOUND REFORM OF WAGE STRUCTURE (E.G., TERMINATION PAY, SENIORITY PAY, ETC.) AND OF STRUCTURE OF TOTAL LABOR COSTS. PARTIES ALSO URGE ADOPTION OF INCENTIVES AND FISCAL MEASURES TO FACILITATE RE-ENTRY OF CLANDESTINE LABOR INTO REGULAR LABOR FORCE.

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 ROME 11012 03 OF 03 062258Z  
ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-07  
EA-09 FRB-01 INR-07 IO-14 NEA-10 NSAE-00 USIA-15  
OPIC-06 SP-02 LAB-04 EPG-02 SIL-01 AGRE-00 OMB-01  
XMB-04 HUD-02 PRS-01 PA-02 L-03 OES-07 INT-05  
ERDA-07 DODE-00 FPC-01 H-02 NSC-05 PM-04 SS-15  
STR-04 ACDA-10 FEA-01 DOTE-00 FAA-00 /171 W  
-----076734 070018Z /72

R 061533Z JUL 77  
FM AMEMBASSY ROME  
TO SECSTATE WASHDC 5707  
TREASURY DEPT WASHDC  
INFO AMEMBASSY BRUSSELS  
AMCONSUL FLORENCE  
AMCONSUL GENOA  
AMCONSUL MILAN  
AMCONSUL NAPLES  
AMCONSUL PALERMO  
AMEMBASSY PARIS  
AMCONSUL TRIESTE  
AMCONSUL TURIN

UNCLAS SECTION 3 OF 3 ROME 11012

8. /PRICE POLICY AND EXPORT POLICY/. (PARA 11 7\* 43\*53))  
PROGRAM AGREEMENT FAVORS WIDER ADOPTION OF "SURVEILLED  
/PRICES/ (NOT "SOCIAL PRICES" AS ERRONEOUSLY REPORTED IN  
REFTEL). SUCH PRICE SURVEILLANCE WOULD BE LIMITED TO IMPORTANT  
INDUSTRIES TO PERMIT DIRECT VERIFICATION OF COSTS WHILE AVOIDING

RIGID AND INDISCRIMINATE PRICE FREEZES.

9. PROGRAM AGREEMENT ALSO MAKES REFERENCE TO /EXPORT POLICIES/,  
IN PARTICULAR TO NEW OSSOLA EXPORT CREDIT LAW AND NEED TO IMPLEMENT  
LAW THROUGH APPROVAL IN 1978 BUDGET OF ADEQUATE EXPORT CREDIT  
INSURANCE CEILING AND OF ADEQUATE FUNDS FOR RE-FINANCING OF  
EXPORT CREDITS BY MEDIO CREDITO.

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 ROME 11012 03 OF 03 062258Z

10. /INTERNATIONAL ECONOMIC RELATIONS/. ECONOMIC PORTION  
OF PROGRAM ACCORD TERMINATES WITH REFERENCE TO RECOGNITION OF  
NEED FOR ITALY TO ACTIVELY PARTICIPATE IN WORLD MARKETS.  
IN STRESSES ITALY'S COMMITMENT TO EC AND URGES GOI TO SEEK  
CLOSER EC SOLIDARITY IN SUCH AREAS AS: BALANCE OF PAYMENTS  
ADJUSTMENT, COMMON AGRICULTURAL POLICY, EXPORT CREDIT AGREEMENT,  
USE OF REGIONAL FUNDS, AND EC POLICY TOWARD THIRD WORLD.

1. /COMMENT/. EMBASSY HAS LITTLE ADDITIONAL TO ADD TO COMMENT  
CONTAINED IN REFTEL A. IN FACT, EXAMINATION OF FULL TEXT OF  
ECONOMIC PORTION OF PROGRAM ACCORD RECONFIRMS VIEW THAT FAIRLY  
GOOD BEGINNING HAS BEEN MADE IN PURSUING OBJECTIVE OF BETTER  
CONTROL OF PUBLIC EXPENDITURES, ALTHOUGH IN SOME CASES SPECIFIC  
LEGISLATION WILL BE THE TEXT OF FINAL SUCCESS. ALSO, LACK OF  
POLITICAL AGREEMENT ON LABOR COST QUESTION STANDS OUT EVEN  
CLEARER BY INCLUSION OF POSITIONS OF INDIVIDUAL POLITICAL PARTIES  
ON THIS CONTROVERSIAL ISSUE. GARDNER

UNCLASSIFIED

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01-Jan-1994 12:00:00 am  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** ECONOMIC PROGRAMS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Sent Date:** 06-Jul-1977 12:00:00 am  
**Decaption Date:** 01-Jan-1960 12:00:00 am  
**Decaption Note:**  
**Disposition Action:** n/a  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:**  
**Disposition Date:** 01-Jan-1960 12:00:00 am  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1977ROME11012  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Expiration:**  
**Film Number:** D770240-0387  
**Format:** TEL  
**From:** ROME  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1977/newtext/t19770787/aaaacxus.tel  
**Line Count:** 309  
**Litigation Code IDs:**  
**Litigation Codes:**  
**Litigation History:**  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Message ID:** 88753570-c288-dd11-92da-001cc4696bcc  
**Office:** ACTION EUR  
**Original Classification:** UNCLASSIFIED  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 6  
**Previous Channel Indicators:** n/a  
**Previous Classification:** n/a  
**Previous Handling Restrictions:** n/a  
**Reference:** 77 ROME 10472, 77 ROME 10748, 77 ROME 10930  
**Retention:** 0  
**Review Action:** RELEASED, APPROVED  
**Review Content Flags:**  
**Review Date:** 04-Nov-2004 12:00:00 am  
**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**SAS ID:** 1950611  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** ECONOMIC CONTENT OF PROGRAM ACCORD  
**TAGS:** EFIN, IT  
**To:** STATE TRSY  
**Type:** TE  
**vdkgvwkey:** odb://SAS/SAS.dbo.SAS\_Docs/88753570-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009